STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	)	
d/b/a Ameren Illinois	)	
	)	Docket No. 13-0192
Proposed General Increase in Gas Rates	)	

DIRECT TESTIMONY OF MICHAEL L. BROSCH

ON BEHALF OF THE

PEOPLE OF THE STATE OF ILLINOIS AND

CITIZENS UTILITY BOARD

DATED: June 19, 2013

DIRECT TESTIMONY OF MICHAEL L. BROSCH

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I. INTRODUCTION / SUMMARY

Q. Please state your name and business address.

A. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri 64148-1934.

Q. By whom are you employed and in what capacity?

A. I am a principal in the firm Utilitech, Inc., a consulting firm engaged primarily in utility rate and regulation work. The firm's business and my responsibilities are related to regulatory projects for utility regulation clients. These services include rate case reviews, cost of service analyses, jurisdictional and class cost allocations, financial studies, rate design analyses, utility reorganization analyses and focused investigations related to utility operations and ratemaking issues.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of the People of the State of Illinois represented by the Attorney General ("The People" or "AG") and the Citizens Utility Board ("CUB").

Q. Will you summarize your educational background and professional experience in the field of utility regulation?

A. Yes. AG/CUB Exhibit No. 1.1 is a summary of my education and professional qualifications. I have testified before utility regulatory agencies in Arizona, Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, New Mexico, Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin in regulatory proceedings involving electric, gas, telephone, water, sewer, transit, and steam utilities. A listing of my previous testimonies in utility regulatory proceedings is set forth in AG/CUB Exhibit No. 1.2.

In Illinois, I have testified in several major proceedings before the Illinois Commerce Commission ("the Commission" or "the ICC"). These include Peoples Gas rate cases in Docket Nos. 90-0007, 07-0241 and 12-0512, North Shore Gas Company Docket Nos. 92-0242 and 12-0513, Illinois Bell Telephone Company in Docket Nos. 92-0448 and 92-0239, ComEd rate case Docket Nos. 07-0566, 10-0467 and Ameren Illinois Utilities Docket Nos. 07-0585 through 07-0590. I also testified in ComEd Docket No. 09-0263 involving the Advanced Metering Infrastructure Pilot Program and Associated Tariffs, in response to ComEd's alternative regulation proposal that was filed in Docket No. 10-0527. More recently I testified in the initial and second year formula rate case proceedings involving ComEd and Ameren Illinois, Docket Nos. 11-0721, 12-0321, 12-0001 and 12-0293, respectively.

Q. What is the purpose of your testimony in this docket?

A. My testimony is responsive to portions of the asserted gas revenue requirement calculations and related testimony of Ameren Illinois Company ("AIC" or "Company"). My testimony supports and explains several ratemaking adjustments to the Company's filing that are summarized within AG/CUB Exhibit 1.3. My work was coordinated with AG/CUB witnesses Mr. David Effron and Mr. Ralph Smith. The ratemaking adjustments sponsored by Messrs. Effron and Smith should be combined with my adjustments, as well as any Staff-proposed adjustments that are presented in this Docket.

Q. Has an Exhibit been prepared by AG/CUB to calculate a revised overall gas revenue requirement for AIC?

A. Not at this time. There is no AG/CUB witness to address cost of capital and other important issue areas in direct testimony that are expected to be covered in the Commission Staff's filed direct testimony.

Q. What information have you relied upon in formulating your recommendations?

A. I have relied upon the Company's pre-filed testimony and exhibits in this Docket, as well as the Company's responses to data requests submitted by Staff, the AG and other parties. I also rely upon my prior experience with the regulation of public utilities over the past 35 years, including significant experience in Illinois.

Q. Please summarize the issues addressed in your testimony.

A. My testimony explains the importance of utility expense forecasts when a future test year is employed and describes my efforts in attempting to gain detailed documentation supportive of the AIC test year expense forecast. I describe the lack of any specific support for the large increases in staffing and labor-related expenses that are proposed by the Company and sponsor an adjustment to moderate the impact of the proposed staffing increases. Similar problems were encountered with regard to the absence of detailed workpapers and support for the Company's non-labor expense forecast, and a corresponding downward adjustment to AIC's forecasted non-labor expenses is proposed due to the lack of support provided by the Company for its forecast and the apparent overstatement of test year expenses.

I also explain and sponsor more specific adjustments to reduce test year forecasted charitable contributions to more reasonable levels consistent with historical actual spending, and I have eliminated advertising and sponsorship costs based upon recent Commission decisions disallowing such costs. Finally, I describe and sponsor a revision to the Company's lead-lag study of Cash Working Capital ("CWC") to conform the treatment of pass-through taxes to the Commission-ordered treatment of such taxes in recent ComEd and Ameren Illinois electric formula rate case proceedings.

II. TEST YEAR EXPENSE FORECASTS

Q. What is the purpose of a "test year" in the determination of public utility revenue requirements?

A. Energy utilities' rates are generally regulated based upon their annual cost to provide service, including an opportunity to earn a reasonable return on invested capital. The process used to evaluate and measure the cost of service and resulting revenue requirement is the rate case, in which a balanced review of jurisdictional expenses, rate base investment, the cost of capital and revenues at present rates can be undertaken at a common period in time, referred to as a "test year." The proper selection and consistent application of the test year is critically important, so that all of the components of the revenue requirement, including rate base, operating expenses, capital costs and sales or billing determinants are holistically analyzed and quantified in a balanced and internally consistent manner with appropriate "matching" of expenses, rate base, cost of capital and revenues.

Q. Are there several commonly employed types of rate case test years?

A. Yes. The two broad categories of test years include "historical" test years that employ actual, recorded financial information to develop the revenue requirement and "future" and "forecasted" test years that employ projections of expected future financial information to develop the revenue requirement.

Q. What type of test year has been proposed by AIC in the determination of the asserted revenue requirement for each gas utility rate zone?

A. The Company's proposed test year is based upon forecasted 2014 rate base, capital structure and operating income amounts, using average information throughout a calendar 2014 forecast period to determine the asserted revenue requirement. Thus, all of the data underlying the Company's asserted revenue requirement is based upon forecasts of anticipated future rate base, expenses, revenues and costs of capital.

Q. Was the revenue requirement in the Company's last Illinois gas rate case also based upon forecasted revenue requirement input data?

A. Yes. In Docket No. 11-0282, a forecasted "future" test year was based upon the 12 months ending December 31, 2012, and the Commission's order notes that no party objected to the use of the forecasted 2012 future test year in that proceeding.[1]

Q. What issues are raised by the Companies' selection of a forecasted test year approach?

A. Whenever a forecasted test year is employed, the reasonableness of the utility's forecasted revenue, expense, cost of capital and rate base data becomes critically important. Use of forecasted rather than actual recorded financial data creates an opportunity for management to aggressively forecast higher future costs because doing so is directly rewarded with higher utility rates and revenues. Future spending levels are inherently uncertain and judgment is required in preparing

[1] See Docket No. 11-0282 Final Order dated January 10, 2012 at page 5.

annual financial forecasts for any utility. The fiduciary obligation of utility management is to maximize returns for investors. This obligation requires that every foreseeable cost that may be incurred should be fully included in the ratemaking forecast to optimize the opportunity for future earnings, while any potential, but uncertain, opportunities to reduce future costs are likely to be ignored or discounted.

Q. In its prior gas rate case, Docket No. 11-0282, were the Company's forecasts for additions to Plant in Service or its forecasted 2012 operating expenses disputed and then addressed in the Commission's Final Order?

A. Yes, three discrete capital addition projects that were forecasted by Ameren to be completed within 2012 and that were included in AIC's asserted rate base were disputed by Staff witnesses, who claimed that the individual projects would not be used and useful by the end of the test year, as required by Sections 9-211 and 9-212 of the Public Utilities Act. The Commission approved this Staff-proposed adjustment in its Final Order.[2] There appeared to have been no disputes surrounding the O&M expenses that were forecasted by AIC to be incurred in its future 2012 test year.

Q. What happens if a utility that is using a forecasted test year is able to have its revenue requirement determined based upon higher forecasted O&M expenses than are actually incurred by the utility?

A. Commission approval of forecasted test year expenses at levels higher than are ultimately spent by the utility causes ratepayers to pay excessive rates. This then

[2] Id. at 13.

contributes to an opportunity to earn a higher return than was intended in the rate order that was issued.

Q. Did the Commission allow AIC more gas O&M expenses for the forecasted 2012 test year than was actually spent by the Company in 2012?

A. Yes. The ICC Final Order in Docket No. 11-0281 included $170.2 million of non-gas Operating Expenses for the three rate divisions.[3] In contrast, the recorded gas utility O&M expenses incurred by AIC in calendar 2012 totaled only $162.2 million, or about $8 million less than was approved for rate recovery by the Commission, based upon the Company's test year expense forecasts.[4]

Q. Has the Company proposed even higher test year 2014 forecasted non-gas O&M expense levels than were approved in Docket No. 11-2082 or actually incurred in 2012?

A. Yes. Proposed test year expenses for the three rate divisions total more than $188 million, which is about 11 percent above the expense levels approved for the 2012 test year and about 17 percent higher than actual 2012 gas O&M expense amounts incurred by Ameren. A side-by-side comparison of 2012 approved and actual non-gas O&M expenses and 2014 proposed expense levels appears in this graph:[5]

Figure 1: O&M Expense Comparisons

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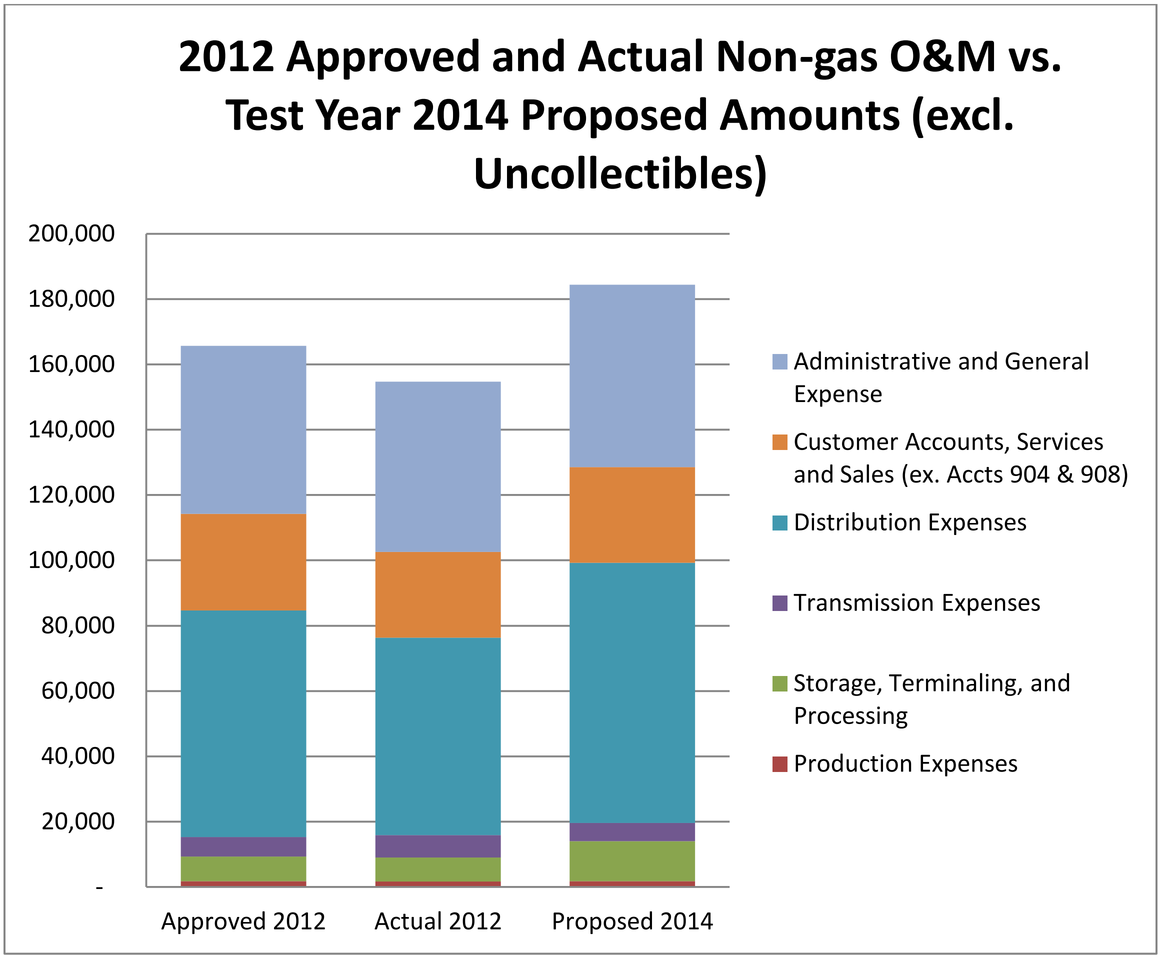
3 Id, Appendices A, B and C at page 1, sum of lines 4 through 10. This total amount is confirmed in the AIC response to data request AG 3.06 Attach.

4 Actual expenses recorded in 2012 have not been adjusted to exclude costs not recoverable in determining rates. If actual expenses were adjusted to a ratemaking basis of accounting, the observed difference between rate case "allowed" expenses and comparable actual amounts may be significantly larger.

5 Graph data is derived from Docket No. 11-0282 Final Order Appendices A, B and C, from the response to AG 3.01 and from Ameren Exhibits 15.1, 15.2 and 15.3.



As the figure above shows, Ameren over-estimated its O&M expenses in its last rate case, relative to actual 2012 non-gas O&M expense by $8.0 million, or about 5%.

Q. Why is it important to compare AIC's test year projected O&M expenses to the actual expense levels most recently incurred by the Company to operate and maintain the business throughout a calendar year?

A. As noted above, a rate case forecast of expenses can be inherently biased toward overstatement, because of the judgment involved in preparing the expense forecast and because the risks faced by management are not symmetrical. Consider that if utility management submits a pessimistically higher view of expected expenses in 2014, causing new utility rate levels to be based upon that view, if actual expenses turn out to be lower than this pessimistic forecast, there are only favorable outcomes. The result is that the Company's earnings are improved, utility management appears to be effective at controlling costs and payouts of higher incentive compensation can be rationalized. Alternatively, if expense forecasts are optimistically low, and then actual expense levels exceed the test year forecast, the utility's earnings decline and cost control and efficiency appear to be absent.

An important benchmark for testing rate case forecasts is a comparison of recent actual O&M expense levels across an entire year to the rate case forecasts in surrounding time periods. There is no better indicator of how much it costs to operate and maintain a utility business than what is actually being spent. Since test year expense forecasts are largely subjective estimates that are prepared by utility management personnel, who are subject to profit and performance incentives to overstate rate case test year expenses, it is essential to require proof whenever the asserted test year expense levels are much higher than the amounts required and incurred to actually run the business.

Q. Have Ameren's witnesses provided any detailed analysis of how the test year O&M expense forecast was developed and why it is so much larger than 2012 actual expenses?

A. No. There is very little discussion within the Company's direct testimony of the drivers of anticipated 2014 O&M expense growth.

The single largest functional expense area is Distribution Expenses, which AIC has forecasted to grow by 32 percent and $19.2 million over recorded actual

2012 levels.[6] The only Ameren witness who explains the basis for test year forecasted Distribution O&M expense is Mr. Colyer (Ameren Ex. 7.0), and he states at line 1108, "My testimony will discuss generally the forecasted Gas Distribution, Transmission and Gas Storage Expenses that AIC has included in the revenue requirement for this case." He then lists the "principal activities that comprise the budgeted Distribution Expense," (at lines 1127 through 1173), with no discussion of how the 2014 forecasted expenses for each of these activities were estimated. The only discussion of expense amounts is contained in a bullet point listing regarding, "some of the Distribution O&M activities planned for 2014 and the approximate associated expenses budgeted for each activity" that appears at lines 1189 to 1213. Aside from this highly summarized data, there is no explanation for the forecasted 32 percent growth in total Distribution Expense relative to actual expense levels incurred in 2012.[7]

AIC is also projecting 2014 expense increases of $4.8 million or about 65 percent over 2012 expense levels, for Gas Storage, Terminaling and Processing Expenses. As with the Distribution Expense category, Mr. Colyer provides a narrative discussion of the activities within this function category of expenses and a bullet listing of, "…some of the Storage O&M activities planned for 2014 and the approximate associated expenses budgeted for each activity" with absolutely no explanation of how the much larger expense amounts estimated for test year 2014 were determined or why

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[6] Distribution Expense is projected for Rate Zones I, II and III in Ameren Exhibits 15.1 through 15.2 at $19.6 million, $20.4 million and $39.7 million respectively, for a total forecasted expense of $79.6 million (rounded). Actual Distribution Expenses recorded in 2012 totaled $60.4 million according to the Company's response to AG 3.01, Attachment.

[7] Mr. Colyer's testimony also describes general categories of work activities contained within the Transmission O&M expense accounts at lines 1222 through 1303.

historical actual expenditures incurred by AIC in 2012 were insufficient or inadequate to provide safe and adequate service.[8]

Q. Does another Ameren witness actually sponsor the amounts within the Company's 2014 expense estimates?

A. No. There is no witness who explains how forecast inputs were developed or why the resulting test year proposed O&M expense forecasted amounts are 17 percent higher than 2012 actual recorded expenses. Ameren witness Mr. Getz (Ameren Ex. 3.0) sponsors Schedule G-3 and the forecasting "assumptions and methodologies," which are only generally described in his testimony. He discusses the budget preparation process and the automated Utilities International Planner ("UIP") system that is used to compile the budget estimates in his direct testimony, noting that:

> All UIP entries are done by cost category (O&M, capital, etc.), resource type (union labor, management labor, materials, vehicles, etc.), and activity code (reliability work, customer billing, etc.), and project numbers are required for all capital work. Business Performance Specialists (BPS) and Financial Specialists throughout AIC work with the RMC managers and the AIC Financial Services group to determine staffing changes and resource allocation, which are entered in UIP. Engineers and other subject matter experts are also involved in the process to provide forecast information on external contractor estimates, material needs, project start and stop dates and other budget inputs. The O&M and capital forecast data is loaded into the corporate budgeting model by the Corporate Modeling group to create forecasted financial statements that are reviewed and adjusted as needed. The final forecast is then presented to the AIC Board for approval. This process therefore leads to approved projections for the future test year period that form the basis for the test year forecast in this proceeding.

What is notably absent from Mr. Getz' direct testimony is any support for the actual input amounts for 2014 for the referenced "UIP entries" that are apparently

[8] Id. Lines 1304 to 1391.

developed and inserted into the forecast by individuals throughout AIC and other Ameren affiliated companies. These input amounts drive the 2014 test year O&M expenses being proposed by AIC and are not directly supported or explained by any AIC witness or any Company-supplied workpapers.

Q. Do the forecasting assumptions that are described by Mr. Getz and that are summarized in Ameren Schedule G-5 explain all of the significant inputs used by AIC to determine the 2014 forecasted O&M expenses?

A. No. AIC Schedule G-5 contains only a few paragraphs of high level assumptions to support "Operations and Maintenance Costs" starting on page 7 of 9. This document merely recites a few of the "key assumptions utilized in the determination of operations and maintenance costs in the forecasted financial statements" while providing no supporting rationale or documentation for even these limited forecast inputs. For example, Schedule G-5 states, "The number of employees is projected to increase by 1% or 23 employees in calendar year 2014, as compared to 2013." This statement provides no indication of how the proposed 2014 test year staffing counts were derived, and is potentially misleading by not disclosing that the "2013" value is itself an estimate of employee levels that is much larger than current actual staffing levels.[9] After indicating the assumed wage rate escalation factors for union and non-union labor costs, Schedule G-5 says nothing about how labor hours were estimated to determine amounts of compensated overtime in the forecast or how

[9] The 2013 employee count is a forecast value that greatly exceeds the actual staffing levels on AIC's payroll in early 2013. For example, in response to AG 1.03R, the Company stated that the actual number of AIC "gas only" employees was 641 at February of 2013 while the test year projected staffing is 727 employees, which is an increase of 86 employees or 13.4 percent in staffing, rather than just 1 percent.

labor hours and dollars were distributed between capital, expense and other balance sheet accounts.

For the entire population of non-labor O&M expenses other than pension and OPEB costs, the basis for the Company's test year forecast is explained within a single paragraph of Schedule G-5 that says:

> *Other Costs:* Operating and maintenance costs are forecast through a detailed bottoms-up budgeting process. Unless specifically determined otherwise, this process assumed, as a default, a 2.0% annual rate of inflation for 2014. For certain supplies including meters, transformers, polyethylene pipe, aluminum, copper and other energy delivery materials, budgeters were provided specific price escalation factors, to be used in the development of project based budgets

This detailed "bottoms-up budgeting process" appears to rely upon individual budget preparers throughout AIC and Ameren Services Company inputting cost estimates into the UIC system with no process in place to systematically capture and retain supporting documentation for such estimates, as more fully described below.

Q. The Company also filed, in compliance with Section 285.7005(b)(2), its Schedule G-1 which is captioned "Work-paper for company budget instructions and guidelines." Does this document explain and quantify how AIC determined the number of employees or the specific amounts of non-labor expenses that were included in the test year 2014 O&M expense estimates?

A. No. The "2013-2017 Ameren Corporation Budget Instructions" contained in Schedule G-1 describe the timeline and procedures to be employed when inputting information into the budget system. This document also describes certain internally calculated loading rates, allocation factors and coding regimes that must be followed. However, these instructions confirm that, "Budgeters are required to enter both Headcount and Full Time Equivalents (FTE) on the Labor Screen of UIP" and that "[t]he FTEs drive the labor calculation." There is no documentation of how AIC management actually determined the need for proposed levels of FTE staffing for the test year. Additionally, aside from noting the need to use "a 2% escalation factor as a guideline," these instructions state, "All non-labor costs must be escalated by the budgeter prior to being entered into UIP."

Q. Does Mr. Getz' testimony or the budget process documentation filed by the Company explain the basis for test year forecasted Distribution O&M expenses of $79.6 million that exceed the actual level of expenses incurred in calendar 2012 by 32 percent?

A. No. The fact that 2014 Distribution O&M expense is forecasted to increase by 32 percent over 2012 actual expense clearly shows that the "budgeter" personnel who input data into the test year forecast did not simply escalate labor costs using the stated "Management 4%" and "Contract 3% (revised to 2.5%)" wage rate increases in Schedule G-1, but instead dramatically increased FTE staffing inputs. The fact that 2014 Distribution O&M expense is forecasted to increase by 32 percent over 2012 actual expense also clearly shows that the "budgeter" personnel who input non-labor costs did not simply escalate historical 2012 spending levels by 2% or any other credible price escalation factor, but instead substantially increased the projected 2014 non-labor costs for other factors not documented anywhere in the Company's direct testimony. The only way to truly understand how test year O&M expense forecasts were developed is through the production of detailed forecast workpapers supportive of the inputs made by Ameren budgeters into the UIP system. No forecast input workpapers have been produced by the Company despite data requests by the AG to that effect.

Q. At page 6 of his testimony, Mr. Getz states his opinion that the test year projections are "reasonable and reliable" by referring to an AICPA Guide for Prospective Financial Information and to an opinion of Kerber, Eck and Braekel, "affirming the preparation and presentation of the projections comply with the AICPA Guide." Has Mr. Getz provided any independent analysis or detailed support for the reasonableness or reliability of the 2014 O&M forecast beyond Schedule G-5 and the Company's contractor who verified compliance with the "AICPA Guide"?

A. Not in his direct testimony or exhibits. It is not apparent that Mr. Getz or any other AIC witness has independently critiqued all of the many UIP budget system inputs to verify the reasonableness of such inputs. As noted in the testimony that follows, the Company has been unable or unwilling to provide supporting documentation for many of the important forecasting assumptions and inputs used to prepare the test year O&M expense estimate.

Q. Does compliance with the AICPA Guide referenced by Mr. Getz ensure that test year expenses are not overstated for ratemaking purposes?

A. No. The engagement letter with the CPA firm retained by AIC to perform the AICPA Guide review reveals that AIC management is completely responsible for the underlying assumptions and the appropriateness of the financial projection and its presentation. AIC management acknowledged that this fact is to be confirmed in a representation letter from management to the CPA firm at the conclusion of the review engagement. A copy of the CPA firm engagement letter, written by the CPA firm and acknowledged in writing by AIC management, was provided in response to data request AG 13.19, and is attached to this testimony at AG/CUB Exhibit 1.4.

III. FORECASTED LABOR EXPENSES

Q. How did AIC prepare its forecast of 2014 test year O&M labor expenses?

A. The test year labor forecast is driven by entry of assumed test year headcount and Full Time Equivalent ("FTE") on the labor screen of the UIP system.[10] The FTE inputs then drive the labor calculation, with the resulting labor dollars spread among expense, capital and other FERC Accounts.

Q. Are you proposing any adjustments to the Company's proposed level of test year labor expenses?

A. Yes. At AG/CUB Exhibit 1.3, page 1, I propose an adjustment reducing test year expenses for the estimated O&M expense and revenue requirement impact of excluding 43 of the 86 new positions, which is one half of the proposed incremental gas only employees that are included in the Company's test year expense forecast. The quantification of the adjustment is based upon calculations performed by AIC in the Company's response to data request AG 5.03R, which showed the "approximate revenue requirement impact" upon O&M expense of adding 86 incremental gas only employees within Attachment 3 to be $7.85 million. Removing one-half of this value, or $3.9 million, would still allow the Company to fund the addition of 43 additional employees above its actual gas utility staffing levels at March of 2013, to enable progress toward the activities identified in Mr. Colyer's testimony, while recognizing that AIC has not provided any specific

[10] Ameren Section 285.7005(b)(2), Schedule G-1, page 3.

supporting justification for all of the proposed 86 incremental positions. This adjustment should be viewed as conditional, and subject to upward or downward revision, depending upon the extent to which AIC ultimately justifies the large increase in gas utility staffing that it proposed for the test year. AG/CUB Exhibit 1.5 contains a complete copy of AIC responses to AG 1.03R and AG 5.03R containing the support for this adjustment.

Q. How did AIC determine the number of employees to include in forecasted 2014 test year labor expenses in the test year?

A. Despite diligent best efforts, I have been unable to determine an answer to this question. AIC seems to be either unable or unwilling to provide supporting documentation indicating the basis or support for its test year FTE inputs to the budget system, and the resulting labor driven O&M expenses derived from such inputs.

Q. Did the Attorney General submit data requests to AIC requesting all studies and other documentation relied upon by the Company to support the need for the increased number of FTE personnel included in the 2014 O&M labor expense forecast?

A. Yes. Several iterations of questions soliciting this information were submitted. In each instance, the Company either failed to produce the data or objected to providing such data. I have copied and included each of the following AG Data Requests in AG/CUB Exhibit 1.6, without voluminous attachments. The following is a brief summary of the AG's question and AIC's response to each item:

- AG 1.03 asked for a detailed comparative statement of monthly actual staffing levels within each AIC and Ameren Services department, compared with projected levels of test year staffing in each department, along with a discussion of each individually significant staffing change and complete copies of all analyses of work requirements, labor demand or other documentation indicating a need for proposed levels of increased staffing. The response provided (prior to the revision contained in AG/CUB Exhibit 1.5) showed a proposed increase in gas-only staff count of 80 employees, while supplying only generalized reasons for filling these new positions. No analyses of work requirements, labor demand or other documents were provided to support the increased staffing proposed by AIC.

- AG 1.04 asked for a detailed explanation of the step-by-step procedures employed by AIC to develop the labor expense forecast for the test year and to provide copies of illustrative reports and documents used in these processes. The response referenced Mr. Getz' testimony and provided only a summary narrative discussion, with no documentation of the process.

- AG 3.14 asked for a summary of staffing counts comparing historical actual data for forecasted staffing as well as an explanation for "why each proposed addition to current actual staffing levels is believed to be needed, with reference to all measures of work requirements, backlogs of existing work and all other information relied upon by management to determine staffing levels" and the Company responded by referring to AG 1.03 and AG 1.04 and then objecting to providing "all analytic work that was done" throughout the Company to develop all projected staffing levels for 2014 as "overly broad in scope and unduly burdensome."

- AG 5.01 again asked for a more detailed description of each step of the labor expense forecasting process and complete copies of all analyses, calculations, workpapers, projections, historical trending and any and all other information and/or documents relied upon in developing the amounts input into the AIC system. In its response, AIC provided a hypothetical discussion of how staffing counts may have been determined and stated, "Nor does AIC require analyses, calculations, work papers and/or projections for each and every labor hour/dollar budgeted." Voluminous confidential Attachments were provided to AG 5.01 from the Company's budget process, but none of these documents contained supporting analysis that was used to determine the numbers of proposed staff assumed to be required in each budget area.

- AG 5.06(a) asked the Company to confirm that it has no studies, reports, analyses or other documents supportive of its forecasted expansion of AIC workforce by 12 percent (80 new positions over 641 existing positions) subsequent to February of 2013. The Company simply referenced AG 5.01 (see discussion immediately above) and provided no studies or other documents.

- AG 12.02 referenced previous data requests and asked for confirmation "that the Company has not produced any copies of documentation in the form of studies, reports, analyses of work requirements, performance reviews, backlog statistics or other information to support any of the proposed changes to staffing levels" in 2014 or for pinpoint citations to where any of such documentation has been provided. AIC objected to this request as argumentative and for other reasons, providing no substantive response.

The conclusion I have drawn from this discovery effort is that Ameren is unwilling and/or unable to produce any support for the large increases in staffing that are proposed in the test year. Under these circumstances, it is impossible to evaluate the actual need for expanded staffing or the reasonableness of AIC's projected 2014 labor expenses.

Q. Returning for a moment to Mr. Colyer's testimony in support of test year O&M at lines 1102 to 1391 of Ameren Exhibit 7.0, is it possible for utilities to track and document the levels of work being performed that require labor?

A. Yes. Mr. Colyer discusses a number of activities that contribute to Distribution and Transmission O&M and to Gas Storage Expenses. These are activities for which work can be tracked and monitored statistically. For example, the number and severity of leak response calls and quantities of monthly meter reading, service on/off calls and summaries of leak survey data can be compiled and analyzed to understand the volume of work being performed and to provide quantification of any work backlog that exists due to inadequate levels of staffing or insufficient available labor hours.

Beyond statistical tracking of work volumes and backlog, another valuable metric for staffing level adequacy is the amount of incurred overtime and/or outside contractor charges for supplemental labor, which can indicate an immediate or growing need to add staffing. Unfortunately, neither AIC's direct evidence or its responses to AG data requests have yielded any useful information to evaluate or validate the proposed test year staffing additions.

Q. Is there any indication that AIC's existing levels of staffing, prior to adding 86 incremental gas-only employees, are causing any service reliability, safety or regulatory compliance issues that could only be remedied by large increases in staffing?

A. No. The Company performs tens of thousands of natural gas system operations and maintenance and pipeline safety compliance activities annually to ensure the safety, quality and reliability of its gas service. Key Performance Indicators ("KPIs") are tracked monthly to assure these activities are completed prior to the required compliance dates. The KPI's are grouped into categories and are rolled-up into an overall compliance KPI that has been in the 99th percentile historically for AIC.[11] The Company believes that it is performing adequately across all performance measures tracked presently and is providing safe and reliable Illinois gas service. However, as described in its testimony, the Company is proposing additional personnel and non-labor expenditures in its rate filing that it apparently believes is necessary to strengthen its pipeline safety program and to maintain its current level of performance in 2014.[12]

Q. How does the Company's proposed level of 2014 staffing for the gas utility business compare to current staffing levels?

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[11] AIC response to AG 12.08. Additional information regarding pipeline safety compliance performance is provided in AIC's response to AG 12.10.

[12] AIC response to AG 12.09.

A. The Company has work groups that contain only gas or only electric employees, while other work group employees are shared between the gas and electric business. If we focus solely upon the gas utility business, there were 641 gas-only employees on the Company's payroll in February and also in March of 2013, compared to much higher forecasted staffing of 704 to 706 filled positions throughout the remainder of 2013. Then, for the year 2014, AIC has forecasted 727 gas-only employees in every month of the test year. This is a projected increase in staffing of 86 positions in the ten months between March and January, representing a 13.4 percent increase in gas-only personnel relative to current staffing. I have included a copy of AIC's response to AG 12.03 which describes these proposed staffing changes and the status of planned hiring activities within AG/CUB Exhibit 1.7. As noted previously, current staffing levels are believed by AIC to be performing adequately and providing safe and reliable gas utility service at this time.

Q. Have all of the 86 new employee positions included by AIC in the test year been approved by the Company's senior executive management for hiring?

A. No. According to the response to AG 12.03, "Senior executive management has approved the 65 positions reported open for 2013 as of the end of February 2013. Senior executive management, however, is awaiting Commission approval of rate recovery for wage and benefit costs associated with the 21 positions proposed in the 2014 test year, prior to making any offers. Recruitment and interviews for the 21 open gas only positions in 2014 will begin by the fourth quarter of 2013." Thus, it appears that at least some of the proposed new positions are discretionary and may not be added at all if the Commission does not provide advance approval of cost recovery for such added staffing.

IV. FORECASTED NON-LABOR EXPENSES

Q. How did AIC prepare its forecast of 2014 test year O&M miscellaneous non-labor expenses, including the estimated costs of materials, contract labor, professional services and other non-labor related expenses?

A. According to AIC Schedule C-5, Operating and Maintenance costs are forecast through a detailed bottom-up budgeting process. Unless specifically determined otherwise, this process assumed, as a default, a 2.0% annual rate of inflation for 2014. The test year non-labor other expense forecast is driven by direct entry into the UIP system by the Company's budgeters of amounts expected to be spent by resource type, activity, cost category, business division and utility. Historical cost levels and judgment are used to determine the budget combinations used to record costs and the Business Performance Specialists in each work area work closely with the managers, superintendents and supervisors during the budget process and interface with the UIP system.[13]

Q. Are you proposing any adjustments to the Company's proposed level of test year non-labor expenses?

A. Yes. At AG/CUB Exhibit 1.3, page 2, I propose a series of reductions to certain of the non-labor expense forecast amounts proposed by AIC, in the limited instances where the Company has provided enough data to isolate apparent overstatement of projected costs in the test year. Using the limited information from the Company's response to data requests AG 12.12 and 15.03, my adjustment at page 2 of AG/CUB Exhibit 1.3 proposes alternative forecasted expense amounts for the line items

[13] AIC response to AG 1.08.

described therein, with descriptions in footnotes of how each alternative amount was determined. AG/CUB Exhibit 1.10 contains copies of the Company's response to AG 12.12 and AG 15.03, except for confidential Attachment 2 which is unrelated to the adjustments I have proposed.

Q. Was the Company more forthcoming in providing detailed supporting workpapers that were requested by the AG for the non-labor expense amounts that were entered into the UIP system by Company budgeters?

A. No. After diligent efforts by the Attorney General to acquire and study detailed workpapers in order to understand how the Company's budget personnel derived the amounts they input into the test year forecast, it remains unclear how most of these amounts were actually determined. As in the case of staffing level inputs, a series of data requests have been submitted to the Company seeking detailed workpapers supportive of AIC and Ameren Management Services test year non-labor expense forecast inputs. AIC has not been forthcoming with supporting calculations and documentation for its 2014 non-labor expense forecasts. I have copied and included each of the following AG Data Request responses within AG/CUB Exhibit 1.8, without related voluminous attachments. The following is a brief summary of the series of non-labor forecast question and AIC's form of response to each item:

- AG 1.08 asked for a detailed explanation of the step-by-step procedures employed to develop the O&M Other Cost forecast for the test year, indicating procedures used to estimate work requirements, material/contractor charges, the activity and work element codes that are employed and processes utilized to verify and summarize projected overall Other Costs, with copies of illustrative reports and documents used in each step of these processes. The Company's response referred to Mr. Getz' testimony, providing only summary level process descriptions and included no illustrative documentation for the steps of the process.

- AG 1.15 asked for complete copies of all of the detailed workpapers, supporting analyses, historical cost trending studies, vendor quotations and other documents relied upon by each of the referenced personnel and groups in support of the inputs used to develop test year non-labor expense forecasts. The Company objected to providing this information, claiming the request for budget support is "overly broad in scope and unduly burdensome in light of other information provided in AIC's direct filing and in response to other data requests that explains the development of the test year forecast and supports the forecasted costs."

- AG 3.16 asked for identification, quantification and descriptions of each "price escalation factor" used for supplies and a summary of the total dollar amount of base expenses that was subjected to escalation using the default 2% and each other (specified) escalation rate in 2014 and each prior period where escalation/inflation assumptions were employed. The response provided only general support for escalation rates and failed to quantify the total dollar amounts escalated by the 2% or any other factors.

- AG 5.07 included a request for "complete copies of all analyses, reports, historical trending studies, vendor quotations, price times quantity calculations and other documentation associated with or supportive of the amounts entered into the budget system for the test year non-labor expenses." The Company provided no such documents, instead electing to discuss certain known causes for higher forecasted costs, as outlined in its responses to Staff ENG 3.01, 3.01S and 3.01S2.

- AG 7.01 requested information regarding each departure from the 2% general escalation rate, detailed supporting calculations and documentation for each element of test year forecasted non-labor costs and similar supporting documentation and calculations for all relevant Ameren affiliates for which allocated non-labor expenses are included in the test year expense forecast. In its response, AIC states, "Forecasts are updated throughout each month with version copies form the 10^{th} working day saved. As such, it is not possible to point to a single forecast version that was used by all budgeters. An analysis of the step-by-step process for how each specific non-labor cost forecasted for 2014 was derived from prior budgeted amounts is not available." No documents supportive of non-labor expense forecast entries were provided with this response.

- AG 7.03 again asked for the total dollar amounts of forecasted 2012 AIC gas O&M expenses that were subject to each of the escalation factors referenced in AG 3.16(c) and none of the requested breakdown of total dollars subject to escalation was provided. Instead, the response provides support for a PE pipe escalation factor but then concludes "PE Pipe does not have a significant impact on O&M expenses thus there are no studies that have been performed."

- After AIC objected to providing support for <u>all</u> of its non-labor expense forecast inputs in AG 1.15 and failed to provide such documentation in AG 5.07, a more selective AG 12.05 was submitted asking for "…all relied-upon source documentations supporting the development of each non-labor budgeted expense amount individually exceeding $50,000 that was entered into the test year forecast system and included in the Company's asserted test year expenses" for a list of 42 specific budget areas. The Company again objected, stating this request was "…not reasonably defined in any reasonable manner, unduly burdensome to comply with in any reasonable amount of time and amounting to annoyance, harassment, and needless increase in the expense of litigating this proceeding."

- AG 13.18 asked the Company to confirm that it has not accumulated or maintained any comprehensive and indexed workpapers supportive of the test year non-labor expense forecasts or, in the alternative, to provide such documents. The Company again objected claiming the request is argumentative and a mischaracterization of the documentation AIC has produced.

In its direct testimony filing and throughout the discovery process, AIC has not produced the supporting workpapers, historical trending data, vendor bid information or other documentation for the "other" non-labor amounts directly entered into its budget system for the 2014 test year.[14] This is critically important information because the utility's test year forecast, which is the underpinning of the revenue requirement, cannot be fully understood and evaluated without such information.

Q. Do you regularly work in any other state regulatory jurisdictions where forecasted test years are employed?

A. Yes. Utilitech has been responsible for the detailed review and responsive revenue requirement testimony filed by the Hawaii Consumer Advocate in every major energy rate case processed in that State for the past 15 or more years. Forecasted test years are required for use in Hawaii rate cases.

[14] In Schedule G-5 and responses to certain data requests, supporting documentation for pension and OPEB costs was provided, but no workpapers for the directly input other O&M expense amounts has been produced by AIC. On June 7, the Company provided its response to AG 15.03 that contained limited descriptions of assumed volumes and prices for elements of its non-labor expense forecast that had been listed without supporting analysis in AG 12.12. Copies of both of these responses are provided in AG/CUB Exhibit 1.10.

Q. Do the regulated energy utilities in Hawaii pre-file detailed supporting workpapers for the labor and non-labor forecasted test year expenses that are proposed for rate recovery?

A. Yes. Workpaper support for the derivation of labor hours and non-labor expense amounts input into test year forecasting systems are routinely submitted with the filing of direct testimony by Hawaiian Electric Company, Hawaii Electric Light Company and Maui Electric Company, Ltd. These utilities understand their obligation to retain and produce indexed workpapers containing supporting calculations and documentation for all individually significant labor and non-labor expenses included in the revenue requirement. In addition, multiple witnesses are produced with subject matter expertise in each functional area of the utility to explain and defend the test year forecasts as well as each individually significant variance in forecasted amounts, relative to recent historical expense levels.

Q. Have you recently participated in any Illinois rate proceedings where a forecasted test year was employed?

A. Yes. I participated in Peoples Gas Light & Coke Company and North Shore Gas Company ("PGL/NSG") consolidated Docket Nos. 12-0511/0512, with responsibility for review of test year forecasted O&M expenses.

Q. Did PGL and NSG provide supporting workpapers for the forecasted non-labor expenses proposed for the test year in the referenced Dockets?

A. Yes. Voluminous workpapers were provided in response to AG data requests and Company personnel were made available to explain the workpapers. While the PGL/NSG forecast support documents were not indexed or well organized, it was possible with considerable effort to find support for most of the individually significant elements of the utility and Integrys Business Support affiliate's forecasted expenses, so as to more specifically address issues raised by the methods used to forecast such costs. In the Proposed Order issued on April 26, 2013 in that Docket, several of the O&M expense adjustments I proposed based upon my review of PGL/NSG non-labor forecast workpapers were recommended for approval by the ALJ.[15] These were adjustments that were only determinable upon review of test year forecast workpapers.

Q. How were you able to quantify the non-labor O&M expense adjustment that you recommend for the AIC gas utility in the absence of workpaper support from the Company?

A. The only meaningfully detailed supporting calculations for the Company's test year non-labor forecast inputs were eventually provided in response to data requests AG 12.12 and 15.03, just before this testimony was due to be filed.[16] Using this limited information, it is possible to determine that specific elements of the Company's 2013 non-labor expense forecast appear to significantly overstate future expenses to provide for vast expansions of integrity management and other safety-related programs. Therefore, at this time, I propose the adjustments listed and described in AG/CUB Exhibit 1.3 at page 2. The AG has requested additional support for AIC's forecasted expenses that may support refinement of these adjustments if and when the Company produces more substantive supporting documentation. With this adjustment and the corresponding staffing and labor adjustment proposed above, the resulting test year 2014 estimated O&M expenses are more consistent with

15 See Proposed Order dated April 26, 2013 in Docket Nos. 12-0511/0512 cons. pages 154-161

16 See Footnote 14 and AG/CUB Exhibit 1.10.

historical spending levels that were effective at providing safe and adequate service to AIC customers.

Q. With regard to the Company's large proposed increase in forecasted O&M expense in the 2014 test year, was any information provided to Commission Staff to explain how the forecasted amounts were developed?

A. I am not aware of any questions from Staff asking for forecast workpapers or supporting documents. However, in response to data request ENG 3.01, in which the Company was asked to "explain the variation in the 2011-2014 expenses" for a listing of accounts, spreadsheet attachments were provided with "variance explanations" that show relatively steady expense levels in the 2011 and 2012 actual columns, with significant increases in both of the forecasted years 2013 and 2014. I have included a copy of ENG 3.01 and its attachments within AG/CUB Exhibit 1.9.

Q. Has AIC presented any evidence that its relatively steady actual spending in recent years will be insufficient to continue to provide safe and adequate gas service in future, forecasted periods?

A. No. While Mr. Colyer describes the Company's plans for expansion of activities and forecasted costs in Ameren Exhibit 7.0, he has not explained any inadequacies in historical spending levels or why vastly higher amounts are now required to serve essentially the same base of customers with essentially the same infrastructure as soon as we move from recorded, actual costs in 2011 and 2012, to forecasted amounts in 2013 and 2014. Without such explanations, the Commission should not approve the much higher forecasted O&M expense levels that are being proposed.

In its response to AG 13.03, the Company states, "Additionally, there are new federal regulations forthcoming that are based upon the legislation requirements passed by Congress in December 2011. The new regulations will result in significant additional work requirements, including transmission pipeline replacements, hydrostatic testing of pipelines, and expansion of TIMP requirements." However, the Attachment to this data request reveals that most of the new requirements impose work on the Department of Transportation ("DOT") to conduct a series of evaluations to determine <u>if</u> TIMP requirements and other new regulations are required.[17] The Company's test year O&M forecast, after revision for the AG/CUB-proposed adjustments, appears to make ample provision for expansive and costly new compliance measures, based upon speculation regarding the outcome of pending federal regulatory changes and an assumption that AIC will be unable to continue to comply with new and expanded regulations in the absence of large increases in staffing and other non-labor expenses.

Q. Using the expense variance data provided in the Company's response to data request AG 3.01, how does the AG-proposed test year forecasted Distribution O&M expense, after the AG/CUB ratemaking adjustments, compare to the Company's proposed test year expenses in relation to 2012 actual spending?

A. The Company's proposed test year 2014 O&M expenses total $189.2 million when the amounts in Ameren Exhibits 15.1 through 15.3 at Schedule 1 are totaled. The O&M adjustments described herein and sponsored by AG/CUB witness Mr. Smith

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[17] The "Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011" was signed into law in January of 2012 and is available at: http://www.gpo.gov/fdsys/pkg/PLAW-112publ90/pdf/PLAW-112publ90.pdf. Any new regulations from U.S. Department of Transportation PHMSA in response to this legislation are expected to be announced by July 2013, including possible extension of integrity management program requirements beyond high consequence areas, time limits for accident and incident notification, and any new regulations for testing of material strength of pipe operating above 30 percent of specified minimum yield strength in high consequence areas.

reduce forecasted test year O&M to $176.3 million, which can be summarized as follows:

.Figure 2: Revised Test Year O&M Expense Comparisons.

	$ Millions	% Over 2012
AIC Proposed O&M	$ 189.2	17%
AG/CUB O&M Adjustments:		
Ex. 1.3 p.1 Labor	(3.9)	
Ex. 1.3 p.2 Non-Labor	(3.6)	
Ex. 1.3 p.3 Software	(0.9)	
Ex. 1.3 p.4 Contributions	(0.1)	
Ex. 1.3 p.5 Sponsorship	(0.1)	
Ex. 1.3 p.6 Advertising	(0.4)	
Ex. 4.2 p.1 Pension/OPEB	(3.9)	
Revised Proposed O&M	$ 176.3	9%

The revised total O&M expense amount proposed by AG/CUB for the test year represents expenses that exceed 2012 actual levels by approximately nine percent, which is more than double normal inflation levels expected in 2013 and 2014.[18]

V. SHARED SOFTWARE DEVELOPMENT RENTS

Q. Has AIC included the estimated costs of significant new software development projects within its asserted revenue requirement?

A. Yes. Mr. Colyer describes Project J01HP-Enterprise Asset Management Implementation (“EAM”) and Project J01HZ-Mobile Work Management (“MWM”) that represent new automated systems that are expected to be completed by December of 2014 and included within the asserted revenue requirement.[19]

[18] Ameren’s default expense escalation rate for general inflation is 2.0% according to AIC Part 285.7005(b)(2), Schedule G-1 at page 2.

[19] Ameren Ex. 7.0 at 29:613 to 30:652. See also Ameren Ex. 7.1, pages 1-4.

Q. Are these new automated systems expected to be owned and maintained by AIC, even though they will also be used by Ameren Missouri to support gas utility operations in Missouri?

A. Yes. Ameren Missouri will also use the EAM/WMW and will be charged a rental fee to compensate AIC for the costs of developing and maintaining EAM/WMW.[20]

Q. Has any of the rental income from Ameren Missouri been reflected in the AIC asserted revenue requirement?

A. No. The rental revenues are expected to be collected starting in 2015 after completion of the systems.[21] This causes an inappropriate mismatch of costs and revenues, by burdening AIC ratepayers with the cost of installing and amortizing costs of the new automated systems, while denying ratepayers the offsetting revenues from Ameren Missouri arising from shared use of the systems in Missouri.

Q. Have you proposed a ratemaking adjustment to reduce the revenue requirement, in order to account for estimated annual EAM/WMW rental income to be received from Ameren Missouri?

A. Yes. AG/CUB Exhibit 1.3, page 3, reflects an adjustment to include $915,578 of annual rental income to be received by AIC upon completion of these systems. This amount coincides with the first year calculation of a compensatory rental income rate from Ameren Missouri, based upon the estimated costs of the software.[22] This adjustment is premised upon the assumption that AIC will actually complete and place into service the EAM/MWM systems in December 2014 as planned. In the event the systems are not expected to be complete within the test

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[20] BAP 1.05 and AG 3.02, Confidential Attachment 3.
[21] Id.
[22] Calculations are provided in AIC's response to data request BAP 1.05, Attachment.

year, the adjustment I proposed should not be approved and instead a much larger adjustment should be made to eliminate the capitalized cost of the systems and related depreciation/amortization expenses, along with the test year projected O&M expenses that have been included within AIC's asserted revenue requirement.

VI. CHARITABLE CONTRIBUTIONS

Q. What level of charitable contribution expense is proposed for recovery from AIC gas ratepayers in the 2014 forecasted test year?

A. The Company has proposed an allowance for Section 9-227 contributions of $518,500, which amount represents an allocation to gas of approximately 40 percent of a total AIC contributions forecast of $1.29 million.[23]

Q. Has the Company identified the individual recipients or itemized the amounts of individual contributions it proposes to make in 2014?

A. No. An itemization of actual historical charitable contributions by payee is presented in AIC Schedule C-7, but there is no itemization presented for either the 2013 or 2014 forecast years.

Q. How does the $1.29 million of proposed total AIC contributions forecasted for 2014 compare to actual amounts contributed by the Company in 2011 and in 2012?

A. In 2011, the actual contribution spending by AIC was $574,902 and in 2012 actual contribution spending was $918,517, prior to allocation of such amounts between the electric and gas utility business.[24] Thus, the proposed allowance for 2014

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[23] Ameren Exhibit 6.0, page 4, lines 84-88.

[24] AIC response to Staff Data Request MHE 6.03.

contributions of $1.29 million represents an increase of 124 percent above actual 2011 spending and an increase of 40 percent above actual 2012 contributions.

Q. Has the Company presented any justification for increasing its charitable contributions so dramatically, given that such spending is discretionary and would add to the burden of higher rates to be paid by customers?

A. No. AIC witness Mr. Kennedy's testimony on this topic states that the proposed level of test year contributions, "…represent the aggregate amount of donations that AIC has budgeted for the relevant time periods" and that "AIC does not budget recipient-by-recipient each year for all the contributions it will ultimately make in a given year." There is no explanation in testimony indicating why the aggregate level of donations that were actually made and apparently viewed as reasonable by AIC in 2011 and 2012 would not also be sufficient in 2014.

Q. What adjustment is proposed by the Attorney General with respect to charitable contributions that should be included in test year 2014 revenue requirements?

A. Charitable contributions for 2014 should be set no higher than an inflation-escalated allocation to represent the gas utility share of the total contributions made by AIC in 2012, which is 40.16 percent of $918,517 or $369,000. Increasing this amount for inflation at 2 percent to 2013 and another 2 percent to 2014 yields an allowance of $384,000.

Q. Does this allowance for charitable contributions comport with how AIC developed its proposed recoverable amount in Docket No. 11-0282?

A. Yes. According to Mr. Kennedy's testimony, "In Docket No. 11-0282, AIC sought to recover a forecasted level of contributions for its 2012 future test year for its gas operations. The Commission found the total forecasted amount AIC sought to recover in gas delivery rates was not a reasonable amount based on the economic climate at the end of 2011. Ameren Ill. Co., Order, Docket 11-0282 (Jan. 10, 2012), p. 94 31. Instead, the Commission accepted Staff's proposal to limit recovery of contributions to AIC's budgeted amount for 2011 plus a 2% increase." The AG also supports basing recoverable contributions upon 2012 spending levels. However, using the Company's <u>actual</u> 2012 contribution level, as I propose, removes from this calculus any concern about overstatement of test year expenditure budgets, by allowing the Company to actually recover its recent actual level of spending with adjustment for expected inflation.

Q. Does the adjustment you propose to restate AIC's estimated 2014 test year contributions allowance appear within AG/CUB Exhibit 1.3?

A. Yes. Page 4 of this Exhibit sets forth the required adjustment to include the more reasonable allowance for charitable contributions that is explained in my testimony.

VII. CORPORATE SPONSORSHIPS

Q. Has AIC included amounts for event sponsorship within the forecasted 2014 expenses and the asserted gas utility revenue requirement?

A. Yes. AIC witness Mr. Kennedy's testimony indicates that approximately $133,000 has been budgeted for corporate sponsorships chargeable to Account 930.1 in 2014.[25]

[25] Ameren Exhibit 6.0, 13:277-280.

Q. Has the Company provided an itemized breakdown of this amount by event or payee, so as to facilitate review of the reasonableness of such costs?

A. No. This form of detailed information was requested in data request AG 3.10, and the Company responded by referencing the detailed breakdown of actual 2011 sponsorships that was submitted by AIC in AIC's electric formula rate case in ICC Docket No. 12-0293 in Ameren Exhibit 24.2 and stating that, "AIC expects to support similar types of events in 2014." In the absence of any itemization of events AIC may sponsor in 2014, the Company appears content to rely upon the details of event sponsorship in the most recently litigated rate proceeding.

Q. Did the Commission allow rate recovery of the Company's itemized sponsorship costs in Docket No. 12-0293?

A. Most of the event sponsorship costs incurred by the Company in 2011 were disallowed upon close examination by the Commission. The Final Order in Docket No. 12-0293 noted at page 74 that a total electric jurisdictional amount of corporate sponsorships was $273,750 and that AIC applied a voluntary disallowance of $118,342 to this amount, leaving $155,408 of electric jurisdictional spending in dispute. After listing and totaling the "Excluded Corporate Sponsorship Costs" from two different exhibits, the Final Order concludes that $94,056 of the disputed jurisdictional amounts should also be disallowed. The net recoverable amount of $61,352, after the voluntary and Commission-ordered disallowances, represents about 23 percent of the total incurred electric-jurisdictional costs of corporate sponsorships that were determined to be recoverable from ratepayers.

Q. Do you recommend a similar adjustment to the forecasted 2014 gas utility corporate sponsorship costs?

A. Yes. In the absence of any detailed itemization of sponsorship costs that may actually be incurred by AIC in the forecasted 2014 test year, the best available sponsorship information is the data that was most recently reviewed and addressed by the Commission. AG/CUB Exhibit 1.3 at page 5 applies a 23 percent recoverability rate to the Company's forecasted sponsorship expenses, based upon the Commission's order in Docket No. 12-0293, to derive a downward adjustment to proposed test year corporate sponsorship expenses.

VIII. ADVERTISING EXPENSES

Q. What is the purpose of the adjustment you propose at AG/CUB Exhibit 1.3, page 6?

A. This adjustment reduces the Company's forecasted spending on Informational and Instructional Advertising in Account 909. AG/CUB Exhibit 1.3 contains a downward adjustment to disallow 27 percent of the forecasted 2014 test year expense, based upon the Commission's recently completed analysis of comparable actual expenditures in Docket No. 12-0293. In that Docket, AIC advertising expenditures in calendar 2011 were the subject of detailed scrutiny. In the Final Order issued by the Commission, a total of $683,000 of electric jurisdictional expense in Account 909 was disallowed.[26] The Commission's ordered adjustment represents 27 percent of AIC's total proposed Account 909 electric jurisdictional expense of $2,489,000 in 2011 as reported in that Docket.[27]

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[26] See Docket No. 12-0293 Final Order, Appendix page 2, column (g), where $(683) thousand is removed as "Account 909 Inform. & Instruct. Advertising Expense (per order)".

[27] Docket No. 12-0293, AIC Schedule C-8, line 1.

Q. Why is it reasonable to estimate the appropriate regulatory adjustment to forecasted 2014 test year expenses, based upon the proportion of Account 909 expenses that was recently disallowed by the Commission in the 2011 formula rate year?

A. Docket No. 12-0293 represents the most detailed and most recent Commission order providing an analysis of detailed actual charges within AIC's Account 909. The Company did not forecast 2014 expenses by FERC Account and has no detailed advertising programs or spending plans for 2014, so the best available proxy for the advertising that may eventually be done in 2014 is the recent actual spending programs and advertising messages.

Q. Does the Company suggest that the portfolio of 2011 actual advertising messages and programs are indicative of how the forecasted budget for 2014 advertising may be deployed?

A. Yes. At page 18 of his testimony, Mr. Kennedy states that, "In connection with this filing, AIC will be sending Staff copies of advertisements and scripts that were produced and published in 2011, the most recent calendar year for which AIC had a full year of actual data at the time of this filing" and that, "[i]ncluded with copies of the 2011 advertisements and scripts is a workpaper that lists the production costs and publication costs for the ads and scripts produced and published in 2011." The Company has volunteered no detailed breakdown of different advertising campaigns or spending patterns for the forecasted 2014 test year.

IX. CASH WORKING CAPITAL

Q. Has the Company proposed a calculation of cash working capital for inclusion in rate base?

A. Yes. AIC witness Mr. Heintz sponsors the application of his previously conducted study of cash working capital lead and lag days, to updated test year revenues and expenses, to determine Cash Working Capital ("CWC") for rate base inclusion. According to Mr. Heintz, the Company's CWC requirement is supported by a lead-lag study that employs methods that are "consistent with the Commission decisions in prior AIC gas rate cases, most recently in the Commission's final order in Docket No. 11-0282.[28] At Schedule B-8, AIC presents calculations of its proposed Cash Working Capital in the total amount of $19.4 million, along with separate calculations employing the same lag day values for each rate zone.

Q. At page 3 of his testimony, Mr. Heintz states that, based upon a review of the prior lead-lag study and meetings with Company personnel about any expected changes to the Company's policies and procedures, "…the Company decided to use the revenue lag and expense leads from the prior study and apply those leads and lags to the level of test year revenues and expenses in this proceeding."[29] Do you agree with this general approach?

A. Yes. Absent material changes in the Company's policies and procedures governing credit and collection, billing, payables processing or the mix of vendors being employed, there is no need to incur the expense associated with annually updating lead and lag day studies.

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[28] Ameren Exhibit 12.0 3:47-49.

[29] Id. 3:54-60.

Q. Do you agree with the revenue lag and expense lead values set forth in AIC Schedule B-8, as sponsored by Mr. Heintz?

A. I continue to believe that the Company's revenue lag day values are overstated through use of imprecise accounts receivables aging methods that were disputed in my prior testimonies involving Ameren and ComEd. However, AG/CUB have deferred to the Commission's decisions regarding determination of the revenue lag.[30] With regard to expense payment lead days, the Commission's decisions have recently become more consistent (and correct) with regard to the pass-through tax issues in all recent formula rate case orders. Therefore, I recommend that Mr. Heintz' reliance upon and support for the incorrect treatment of pass-through taxes in Ameren Docket No. 11-0282 be rejected in favor of the more recent and consistent decisions of the Commission, as described herein.

Q. What is the purpose of the schedule you have proposed within AG/CUB Exhibits 1.3, at page 7?

A. The calculations on page 7 set forth side-by-side calculations of the total AIC gas lead lag study, showing how the Company's proposed treatment of pass-through taxes, using the improper method approved in Docket No. 11-0282 compares to the correct treatment that was afforded these taxes in Commission Orders in Docket Nos. 11-0721, 12-0001, 12-0293 and 12-0321. The only difference in these calculations appears in the shaded cells, reflecting use of unaltered payment lead day values for the Municipal Utility Tax and Energy Assistance Charge amounts,

[30] See, for example, AG-CUB Exhibit MLB 1.0 in ComEd Docket No. 10-0467 and AG/AARP Exhibit 1.0 in AIC Docket Nos. 12-0001 and 12-0293.

on lines 23 and 24, in place of Mr. Heintz modified, so-called "alternative method of determining CWC requirement associated with pass-through taxes."[31]

Q. What revenue lag and expense lead values have been approved for application to pass-through taxes by the Commission in its most recent final rate orders involved Ameren and ComEd?

A. The revenue lag day and expense lead day values approved by the Commission for Municipal Utility Taxes and Energy Assistance Charges in all recent formula rate case orders was as follows, in comparison to Mr. Heintz' alternative proposal:

Figure 3: Pass-through Tax Lead Day Comparisons.

	Municipal Taxes		Energy Assistance	
	Rev. Lag	Payment Lead	Rev. Lag	Payment Lead
AIC Docket 12-0001	0.00	(48.54)	0.00	(38.54)
AIC Docket 12-0293	0.00	(48.54)	0.00	(38.54)
ComEd Dkt 11-0721	0.00	(44.22)	0.00	(40.69)
ComEd Dkt 12-0321	0.00	(40.11)	0.00	(40.69)
Heintz Alternative	0.00	**(15.00)**	0.00	**(4.00)**

Sources: All amounts from Appendices to Final Orders except "Heintz Alternative" amounts

The last row of this table reveals how the Company's alternative proposal for these pass-through taxes is dramatically inconsistent with the most recent Commission decisions on this issue.

Q. Has there been any change in the remittance schedule for pass-through taxes that would invalidate the findings of the Commission in all of its recent electric formula rate case orders?

A. No. Mr. Heintz observes in his testimony that, "[t]here have been no changes to the remittance schedule for the pass through taxes." He then continues by stating, "[t]herefore, the Company's CWC analysis reflects the same treatment of the

[31] Ameren Exhibit 12.0 5:90-93.

expense lead for pass-through taxes as the Commission adopted in the Company's last ***gas*** rate proceeding." [emphasis added]

Q. Has Mr. Heintz focused upon the CWC outcome in Ameren's prior gas rate case, Docket No. 11-0282, for any particular reason?

A. Yes. In that case, the Commission approved his alternative method of determining Ameren's CWC requirements associated with pass-through taxes.[32] However, this alternative method is flawed because it results in an improper CWC outcome, is completely inconsistent with the actual timing of cash flows associated with pass-through taxes, and conflicts with the more recent electric formula rate case Commission orders involving AIC and ComEd. Correcting Mr. Heintz' creative but incorrect alternative treatment of pass-through taxes in the lead lag study is the only adjustment I am proposing to the Company's CWC calculations.

Q. Why is it appropriate to assign a zero revenue lag to pass-through taxes such as the Municipal Utility Tax and Energy Assistance Charges?

A. The Company acts only as a collection agent, adding pass-through taxes to customers' bills and collecting such additional charges for later remittance to the taxing authorities. These taxes are imposed on the gross receipts that have been collected by the utility, rather than upon the value of services provided for which customer remittances have not been collected.

Q. Are pass-through taxes a liability of the Companies that must be paid before taxable revenues have been collected from customers?

[32] Docket No. 11-0282, Final Order, p. 14.

A. No. While I am not an attorney and am providing no legal opinion on the matter, my review of laws and regulations that provide for the collection and payment of pass-through taxes by the Company indicates that such taxes are payable based upon collected revenues. For example, the Municipal Utility Tax provided for at 65 ILCS 5/8-11-2 is a tax on "Gross Receipts" which is defined at paragraph 4(d) as, "…the consideration received for distributing, supplying, furnishing or selling gas for use or consumption and not for resale."[33] The Energy Assistance Charge has specific remittance requirements stating, "By the 20th day of the month following the month in which the charges imposed by the Section were collected, each public utility, municipal utility and cooperative shall remit to the Department of Revenue all moneys received as payment of the Energy Assistance Charge..."[34] These are not taxes imposed upon the utility while it is providing service, but rather are taxes payable after the fact when money has been received and customer remittances have already been collected.

Q. What do you mean by your reference to Mr. Heintz' creative but incorrect alternative treatment of pass-through taxes?

A. In prior rate cases, Illinois utilities have advocated the assignment of a full revenue lag to the cash inflows for collection of pass-through taxes and then measured and utilized the actual cash payment lead days. After the Commission ruled that no revenue lag should be assigned to the collection of pass-through taxes, Mr. Heintz simply shortened the measured payment lead days for the taxes by netting against the lag the collection and billing elements of the revenue lag. This can be observed

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33 AIC response to AG 10.07, Attachment 1, page 4.

34 AIC response to AG 10.05, Attachment 1, page 14.

in Ameren Exhibit 12.1, page 1, where Mr. Heintz now inserts the “Billing” and “Collection/Processing/Bank Float” revenue lag elements to calculate what he calls a “Date Funds Available.” The effect of Mr. Heintz’ creative alteration of the payment lead is comparable to simply assigning most of a revenue lag to the cash used to pay these taxes.

Q. What is the “Total Elapsed Days” value of 34.53 that appears on Ameren Exhibit 12.1 at page 1?

A. This value is most of the revenue lag of 49.74 days, except for a usage period of approximately one-half month, or 15.21 days. By subtracting a revenue collection lag from the otherwise applicable pass-through tax payment lead, Mr. Heintz accomplishes most of what was determined to be unreasonable in all four recent formula rate case orders.

Q. Is the netting of revenue lag components against the Municipal Utility Tax lead days what causes Mr. Heintz’ alternative lead day value to now be only 15 days in Ameren Exhibit 12.1, rather than the 48.54 lead days that was approved for Ameren Illinois in Docket Nos. 12-0001 and 12-0293?

A. Yes, with some rounding of the calculations that appear in AIC Exhibit 12.1.

Q. Is the netting of revenue lag components against the Energy Assistance Charge lead days what causes Mr. Heintz’ alternative lead day value to now be only 4 days in Ameren Exhibit 12.1, rather than the 38.54 lead days that was approved in Docket Nos. 12-0001 and 12-0293?

A. Yes, again with some rounding of the calculations that occur within Ameren Exhibit 12.1.

Q. Did the Commission affirmatively approve Mr. Heintz' alternative method in Docket No. 11-0282, based on the merits of that position?

A. No. The Commission expressed a different concern about the amounts that AIC many actually pay for Energy Assistance Charges ("EAC") and stated at page 14 of the Order:

> The question is whether the additional month that AIC could hold the funds should be imputed for CWC purposes. If AIC were to change its practices, it would mean that it would effectively remit no EAC charges to the State for one month. Hence, at the test year level of EAC charges, in the first year of the change, AIC would remit about $2.3 million less to the State than it would under its current practices. AIC states that this could impact the comprehensive low income energy programs administered by the Illinois Department of Commerce and Economic Opportunity with these funds. AIC requests that, in calculating the CWC requirement, the Commission recognize AIC's past method of remitting this pass-through tax and avoid any negative impacts on the State, low-income customers, and AIC. Staff, on the hand, contends that ratepayers should not bear the cost of AIC's unnecessary early payment and urges the Commission to base the CWC calculation on AIC's access to these funds and not the date AIC chooses to remit them.
>
> The Commission understands Staff's position but is not inclined to adopt it. Given the circumstances surrounding the EAC, the Commission does not believe that the adjustment sought by Staff is warranted. The Commission will revisit this issue, however, if AIC alters its EAC remittance schedule.

Q. Would Ameren and ComEd be required to skip a month of payments of EAC or Municipal Utility taxes because of Commission adoption of the actual, measured payment lead days for pass-through taxes rather than Mr. Heintz' alternative lead days?

A. No.

Q. To your knowledge, has AIC or ComEd skipped a monthly payment of pass-through taxes because of the Commission's treatment of such taxes in Docket Nos. 11-0721, 12-0001, 12-0293 or 12-0321?

A. No.

Q. Does this conclude your testimony at this time?

A. Yes.